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**ESEM**K

**The European Socio-Economic Models  
of a Knowledge-based society**

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**Main findings and conclusions**

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# **ESEMK**

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### **Main findings and conclusions**

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## MAIN FINDINGS AND CONCLUSION



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[www.univ-evry.fr/esemk](http://www.univ-evry.fr/esemk)

## INTRODUCTION

The current debate on the possibility of existence of a specific European socio-economic model of a knowledge-based economy is linked to the issue of structural reforms and the possible convergence of modern developed economies towards the 'Anglo-Saxon', 'market-based', 'neo-liberal' model of capitalism. Europe in general, and France and Germany in particular, are held to have fallen significantly behind the United States, in terms of economic dynamism and innovation, because of the presence of institutions that would be not suited to the new forms of capitalism, and particularly the 'knowledge-based society'. More generally, the 'new age of capitalism', i.e. the 'knowledge-based economy', would imply the end of the European socio-economic model.

This is indeed predicted by many reports that assess the ability of Europe in general, and the core continental countries (France and Germany) in particular, to fulfil the objectives of the Lisbon summit, i.e. *'to make Europe the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment'* by 2010 (Kok, 2004). What comes out of most of these reports (see also Sapir, 2003) is that the institutions that characterise the European model are supposed to be obstacles to the achievement of the Lisbon strategy. The bad performance of Europe in comparison to the US would be due to the lack of adaptation of the European model to the demands of contemporary capitalism. What is supposed to dominate nowadays is the primacy of innovation and competition, demanding a rapid adaptation capacity to fast-changing markets, and the importance of flexibility in all markets. In this respect, the 'indispensable reforms' would consist in favouring the mobility of workers both within the firm and across firms and industries, to foster education and training and thus workers' employability, to increase labour market flexibility, to deregulate product markets and services, to favour financing through markets rather than intermediaries...

However, some concerns are sometimes raised regarding the social implications of these reforms. It is taken for granted that pursuing a development path toward the knowledge-based economy demands the implementation of the structural reforms mentioned above and that these reforms will lead to high economic performance in terms of growth and innovation. It is nevertheless sometimes feared that the social impact of these reforms may actually jeopardise 'social cohesion'. The question is therefore whether it is possible to reconcile social objectives with deregulated markets and the generalisation of competition as the dominant economic principle. More generally, the question is that of the type of institutional forms suitable to European societies, able to lead to both high economic performance and social cohesion.

This problem is that of the type of socio-economic model that would best fit the European countries. In order to address such a problem and to avoid such simplistic views, it is necessary to possess analytical tools to characterise the complexity of different socio-economic models, so as to be able to position the European model(s) vis-à-vis the 'Anglo-Saxon' variety of capitalism. The seminal contribution of Michel Albert (1991) has stressed the differences between the 'Rhenish model' and its 'neo-American' counterpart. Many

contributions have used this dichotomy, while others have criticised it for being too broad. On the other hand, the reference to strictly national models is of little use for thinking the European socio-economic model.

ESEMKG project considered initially four different types of socio-economic model (or *social system of innovation and production*) in Europe on the basis of the typology developed in Amable (2003): market-based economies, socio-democratic economies, continental Europe and Southern European capitalism. Such a typology is accepted by a growing numbers of observers (for example Sapir, 2006, Giddens, 2006) even if they refer mainly to Esping-Andersen's work on the three worlds of welfare capitalism (Esping-Andersen, 1990) to which a fourth configuration, Southern Europe, had been added.

Considering this diversity of capitalism within EU, the aim of ESEMKG project was to propose a more adapted analysis of the socio-economic development models in Europe, the transformations affecting them, both at the macro and at the micro/meso –levels; to assess the chances of emergence of a specific European socio-economic model distinct from the models existing in other developed regions of the world and to analyse how it can represent an original path towards the knowledge-based society (Amable, Lung, 2005).

The ESEMKG main findings and conclusions presented could be summarised as follows [ESEMKG D7]<sup>1</sup>.

1. First of all, a strong effort has been realised to develop an analytical framework which articulates the macro-level (*socio-economic model*), the meso-level (*sector or industry*) and the micro-level (*productive models* for firms).
2. Using these analytical tools, the project analysed current institutional changes occurring in Europe, their impacts on socioeconomic development models and their policy implications, on three main institutional areas: product market regulation, labour market, and financial system. These transformations have been developed at the macro/societal level, at the meso/industry level and at the micro/company level.
3. These modifications do not lead, neither to the emergence of a specific European model exhibiting distinct characteristics (social protection, corporate governance...), neither to convergence towards a market-based model, discussing the Lisbon agenda within this theoretical framework.

## **1. METHODOLOGICAL ISSUES TO ANALYZE THE DIVERSITY OF EUROPEAN SOCIOECONOMIC MODELS OF DEVELOPMENT**

ESEMKG project aimed to develop an integrated analytical framework articulating the macro-level (*socio-economic model*), the meso-level (*sector or industry*) and the micro-level (*firms' productive models*). A socio-economic model is defined as a set of complementary institutions that rest on a socio-political compromise. Therefore, any transformation of the model or pressure for convergence towards another model must not be assessed in terms of comparative performance only, but more fundamentally in terms of the transformations of the socio-political compromises that underlie a given institutional structure. This applies at the macro as well as at the meso and micro-level, since institutional change and social compromises can take place at all levels, and transformation in productive models may lead to major transformations of a given socio-economic model [ESEMKG D1].

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<sup>1</sup> A broader presentation of our results could be found in the ESEMKG Deliverable D7. In this paper, [ESEMKG Dn] refers to the ESEMKG Deliverable Dn where our results and conclusions are presented in details. The list of deliverable (available on the ESEMKG website) is indicated at the end of the paper.

## 1.1. Analysing the diversity of capitalisms within Europe

Following the methodology developed by Bruno Amable (2003), ESEM approach of diversity of capitalism or socio-economic models in Europe considers the dynamics between five institutional areas considered are the following: [1] product market competition; [2] the wage-labour nexus and labour market institutions; [3] the financial intermediation sector and corporate governance; [4] social protection; and [5] the education sector.

An up-dated statistical analysis integrating emerging countries to the main OECD countries (Berrou, Carrincazeaux, 2005) previously analysed confirms the diversity of European socio-economic models with the dominance of four main different models:

- market-based economies (liberal market economies or Anglo-Saxon model);
- social-democratic economies;
- Continental European capitalism;
- South-European capitalism.

New EU members (CEEC) appeared within a new configuration for Central European countries. By many aspects, this last type is somewhat similar to the Mediterranean model: a rather high level of product/labour market regulation and a moderate level of social protection. Nevertheless, the Central European economies included in the empirical analysis do not seem to belong to a stable type of capitalism and their grouping together seems more an outcome of differences with respect to existing, more stable types. The group is on the whole characterised by an undeveloped financial sector, a weakness of the education sector and a very moderate level of social protection. The countries of this group are on the other hand rather different from one another when one looks at labour and product markets. Product markets are less regulated in Hungary than in Poland or the Czech Republic, where the domestic market is more protected and where State-owned firms are important. The proximity with respect to the neo-liberal model is also found in the Hungarian labour market. Therefore, Hungary looks like a partially neo-liberal model, whereas Poland and the Czech Republic seem more similar to countries of the Mediterranean model. This configuration looks like a set of transition trajectories rather than a new European socio-economic model. A larger historical approach would have to be developed to conclude on the dynamics of institutional changes (Deeg, Jackson, 2006)<sup>2</sup>.

## 1.2. The analytical possibilities given by the consideration of types of capitalism

The institutions of the various European models are based on specific socio-political compromises (Amable, Palombarini, 2005). The validation of social structures in general, and economic or political institutions in particular, depends on the possibility to reconcile different and mostly conflicting agents' expectations with the implementation of public policies and/or institutional change. Finding a compromise does not imply that the underlying conflict between diverging social expectations is eliminated, but that the contestation of social structures can be limited to a controllable social or political opposition. The stability criterion for an institutional structure is thus one of political stability, not economic efficiency *per se*.

In such a framework, the socio-political equilibrium results from the confrontation of agents' social expectations (the political demand) and political strategies (the political supply) which

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<sup>2</sup> This is the objective of a FP7 collaborative project on *Institutional Change and Trajectories of Socio-Economic Models* (ICaTSEM).

will produce a given set of policies and structural reforms. The measures taken will influence the institutional setting by defining the growth regime of the economy under consideration. Policies and institutions will affect the macroeconomic performance, which in turn will modify agents' social position and expectations. When this leads to a socio-political equilibrium, the model of capitalism is stabilised.

Like any comparative approach of capitalism, the institutional complementarity and hierarchy approach is considered. One can illustrate the possibilities opened by the method by looking at the possible transformations affecting the Continental European model. This model has experienced substantial changes during the past decade (Amable, 2003, chapter 6). It is possible to analyse the evolutions of the model with the help of institutional complementarities. In fact, the Continental European model would most probably be impossible to 'reform' with a simultaneous action in every institutional domain, if only because of the political opposition that such reforms would provoke. On the other hand, incremental changes in a limited number of areas, affecting some institutional complementarities, may make the model slowly crumble, by a significant weakening of the overall coherence of the model. New complementarities may appear, that may lead to the emergence and stabilisation of, for instance, a Continental version of the neo-liberal model.

Such a methodology led to specific analyses [ESEMK D3] leading to the following conclusions:

- Financial liberalisation threatens the stability of financing relationships (a conclusion confirmed by the financial crisis opened in September-October 2008);
- Increase in competition in product and service markets intensify the pressures in favour of labour market flexibilisation;
- More job insecurity leads to demands for more social security;
- Lower tax rates (fiscal competition) threatens the financial stability of the welfare state;
- Labour market flexibility discourages investment in specific assets (specialised skills, loyalty, effort...).

However, such local changes do not lead to the emergence of a new coherent European socio-economic model.

### **1.3. Articulating the institutional analysis at the macro, meso and micro levels**

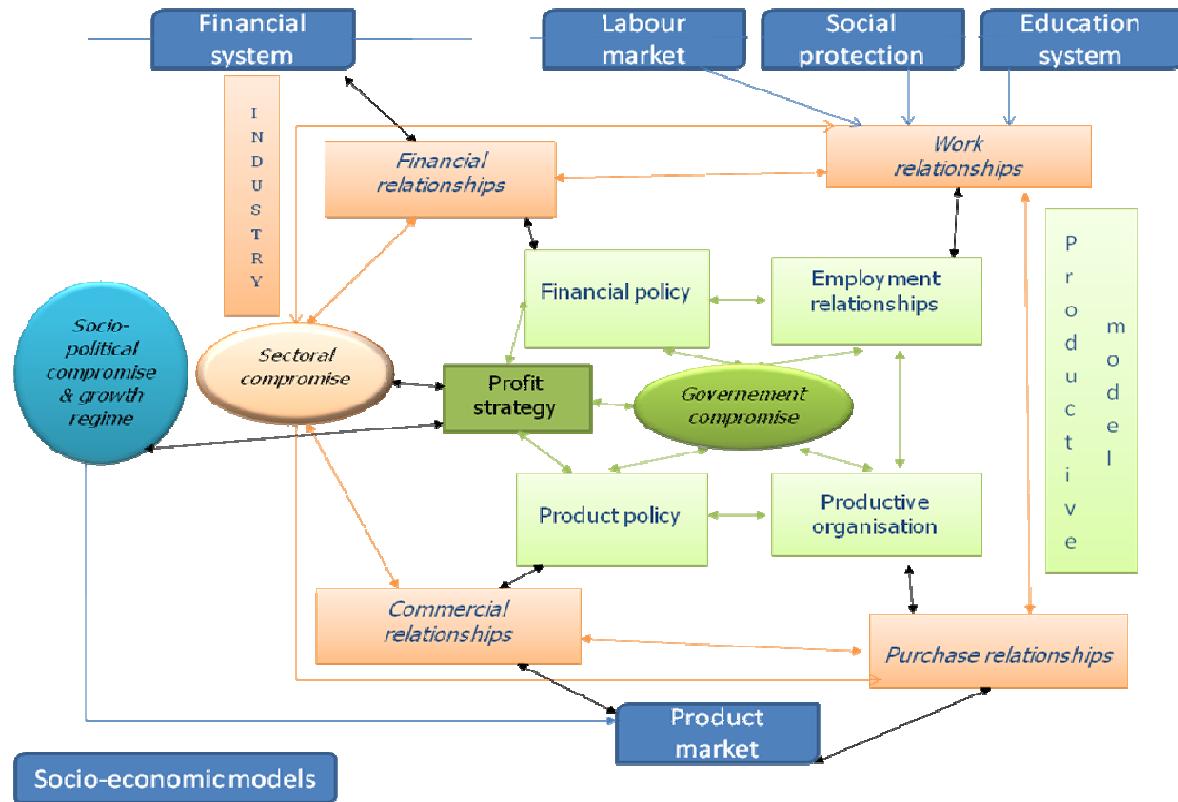
The objective of ESEMK project was to propose an integrated framework articulating macro, meso and micro institutional configuration. Understanding firms' strategies supposes to build a coherent model to analyse their sectoral environment and their own dynamics.

At the level of industries, the methodological grid proposed by Jullien and Smith (2008) considers that each industry is structured by specific combinations of institutionalized rules and practices which the actors it encompasses have composed in order to manage four sets of constraints and opportunities. These relationships concern their [1] employees, [2] suppliers, [3] financers, and [4] clients.

At the level of firms, ESEMK project analysed the diversity of productive models within European industries, using the theoretical grid of productive models proposed by Boyer and Freyssenet (2000). This model paved the way to the development of an analytical grid that encourages thinking about the diversity of firms' forms of organisation within any given sector - in that case the car industry, which was the emblematic sector of Japanese international competitiveness in the late 1980s, but its application to the pharmaceutical industry within ESEMK project opened new perspective (ESEMK D7 and Montalban, 2007).

Considering the different levels (macro, meso, micro), the analytical grid used within ESEMK articulates the main institutional areas (Lung, 2008), analyzing their institutional dynamics horizontally, i.e. at the same level their complementarities and their basic compromise, and vertically, i.e. the interaction between institutions at different levels (figure 1).

**Figure 1 - Articulating the institutional dimensions at the macro, meso and micro levels**



## 2. INSTITUTIONAL CHANGES AND THEIR IMPACTS ON THE EUROPEAN SOCIO-ECONOMIC MODELS

ESEMK analysed current institutional changes occurring in Europe, their impacts on socioeconomic development models and their policy implications, mainly on three main institutional areas: product market regulation, employment relationships, and financial system. For each institutional area, we have considered how transformations taking place at the macro/societal level, at the meso/industry level and at the micro/company level interact.

### 2.1. Changes in product market regulation

The impacts of product market deregulation, which is at the core of the European structural reforms, including in the Lisbon Agenda, have been discussed at the macro and the meso (industry) levels.

### *2.1.1. A macro approach: is product market regulation an obstacle to innovation and the development of knowledge-based activities?*

Using econometric methods, international comparison (Alary, Amable and Ledezma, 2006; Amable, Demmou and Ledezma, 2007; [ESEMK D5 and D7]) shows that the hierarchy in terms of labour productivity remained almost unchanged between the late 1970s and 2003 – except for Ireland. Although the US belongs to the group experiencing high performances and does compete at the top level in ICT industries, it experienced in the recent years a downward trend in the proximity to the top technological level. This point may be relevant when defining the frontier level in the construction of empirical measures of the distance to the frontier.

Our results lead the conclusion that different institutional arrangements may yield similar performances. Countries belonging to the very productive cluster have important differences in their institutional arrangements. While the US and Ireland show a very low regulation in labour and product markets, high performing European countries (Netherlands, Belgium and Nordic countries) are situated in an intermediate position. In particular, the data provides ambiguous evidence to the theoretical arguments highlighting the relevance of product market competition as a key engine of innovation for countries competing close to the technological frontier (Acemoglu, Aghion, Zilibotti, 2002)

Most importantly, *the econometric estimations performed with industry level data for a sample of OECD countries between 1979 and 2003 do not support the now widely diffused thesis according to which deregulation of product market would boost competition and thus lead firms to innovate particularly when they are near the technological frontier.* This belief underlies most of the Lisbon Agenda. If our results are confirmed, this would mean that the cornerstone policy of the Lisbon strategy for innovation is seriously flawed. To expect an innovation-boosting effect from competition policy alone is therefore highly dubious. If pro-competition policy could foster innovation in countries/industries far from the productivity frontier, the bulk of Europe's manufacturing is in fact not so far from the world productivity frontier. For these industries, a pro-competitive policy would have at best zero effect and could possibly have detrimental effects. It seems that in order to boost innovation, specific innovation or industrial policies are in order rather than 'environment', competition policies.

A complementary meso-approach to such a disaggregated macro-analysis allow to understand more directly to the dynamics of institutional change, analyzing the role of actors and discussing the Europeanisation process.

### *2.1.2 A meso/micro approach: European competition policy and dynamic of industries*

That's the main usefulness of the sectoral analytical framework elaborated which will allow to discuss, from a meso-economic point of view, the impact of competition policy [ESEMK D6]. Regulatory questions each refer to one of the four *instituted relationships* (purchase relationship, commercial relationship, work relationship and financial relationship), with the implementation of each implying a definition and stabilisation of some kind of right. Because this right usually derives from a different principle, dynamic or space of regulation depending on whether it relates to labour, finance or entrance/exit markets, it should explicitly refer, in the analysis of industrial dynamics, to the relationship it governs.

Within industries, there is no reason why each instituted relationship has to be subject to the same regulating levels. For example, work relationships are often regulated at an intentionally national level, whereas finance and markets are very often subject to internationalisation processes and/or the influence of more pronounced European harmonisation measures. It remains that the fact of being subject to the same formal rules is not enough to define how relationships are instituted or re-instituted. Liberalisation or harmonisation processes initiated at a European level do not preclude that, for certain

relationships, the *de facto* benchmark remains national in nature. Public Utilities are a good example of these contradictory changes (Isla, 2007).

The lack of completion in the spaces of regulation leads the sectoral logic between two problems. The first stems from the infinitely small chance that a (European or a *fortiori* global) regional area can become a space of regulation for each of the instituted relationships underlying an industry's identity. The second is that, conversely, national frameworks may be able to overcome such shortcomings but their capacity in this respect is fundamentally limited. Thus, a sector and the dynamic (like Europeanisation) created in its wake necessarily imply multilevel dynamics that will lead both to the differentiation of national spaces (whose insertion into new regional entities will restore a modicum of diversity) and also to firms applying different levels of treatment to the spaces in which they have to implement the different dimensions of their activities.

These issues have been discussed for some sectors [ESEMKG D6], mainly: wine (Smith, 2007), automobile distribution (Jullien, 2007; Ramirez, 2006), public utilities (Behr, Leblanc, 2005; Isla, 2007); but also: defence industry (Moura, 2007) and pharmaceutical sector (Montalban, 2007). These cases studies led to two main conclusions concerning the European level for harmonization and liberalisation's discourse and trend at the industry level:

- First, calls for liberalisation and harmonization often appear relatively modest in comparison to what is observed within the industries studied. In the case of wine, the importance of European policy is debatable and hardly one of economic liberalism. In the case of water, the European framework scarcely liberalizes, nor does it especially coordinate. In the automobile distribution sector, despite DG Competition authorship, legislation had long been enacted by taking into account other considerations, and when authorities tried to liberalize this market, they gave the term liberalization a rather shaky definition. This suggests that fundamentally *the portrait of European construction as an unequivocal dynamic by which the winds of liberal globalization blow through economic sectors conforms very little to what could be observed*. On one hand, in the cases of water and wine markets, other considerations tend to legitimate European policy. On the other hand, even when the ideology is present, the resulting dynamics don't match up.
- Next, the European regulatory zone, when we examine it in the context of industry dynamics and instituted relationships, demonstrates its *incompleteness on two levels*. On the first, the scope of European intervention only concerns a single instituted relationship and consequently leaves participants to carry out their activity elsewhere. For example, in the case of the wine market, European intervention only affects the supply relationship, whereas financial and commercial relationships are considered in a larger framework. On the second, even when participating in the definition or redefinition of an instituted relationship, this incompleteness persists since once the European legislation is enacted, relationship remains to be established in production practices. From this point of view, the water market, like that of automobile distribution, demonstrates that once enacted, the effectiveness of legislation is unstable and often tends to weaken on a more operational level. European regulation also coexists – or else must come to terms with in application – national rules or interpretations. This is the case for example of supply relationship regulation in the wine industry.

At the macro and meso/micro levels, ESEMKG findings contest the usual view on the positive effects of product market liberalization policies within EU. This would be again the case in the discussion of the impact of labour markets' deregulation

## 2.2. Changes in labour relationships

Many analysts consider that excessive rigidities in European labour markets are the strongest obstacles to a new regime of high growth and innovation within EU. Reducing employment protection legislation and enhancing labour flexibility would be a key issue. ESEMK contributions on labour issues focus on the analysis of the institutional complementarities between product market and labour market at the macro level, and on the evolution in knowledge intensive activities at the meso/mico level.

### 2.1 Macro approach: Employment Protection Legislation and Product Market Regulation complementarities

According to the orthodox view, the persistence of high level of unemployment in continental Europe can be explained by the institutional arrangements of those countries. The underlying idea is that the strength of institutional imperfections in European labour markets hinders the proper functioning of these markets, making them 'inflexible'. The subsequent policy recommendations are to remove obstacles to flexibility: decrease unemployment benefits, weaken job protection legislation, increase mobility of labour, and improve product market competition (IMF, 2003; OECD, 1996).<sup>3</sup> The orthodox view has undergone some criticisms in a few recent contributions (Baker et al., 2005; Freeman, 2005). Empirical results provided in those contributions indicate that the relationship between institutional arrangements and employment performance is indeed more complex than the orthodox policy recommendations seemed to imply (Nicoletti and Scarpetta, 2002).

The empirical studies undertaken in the ESEMK project (Amable, Gatti, 2004, 2006a, 2006b, 2006c; Amable, Demmou, Gatti, 200-a, 2006c; [ESEMK D3]) have re-examined the 'old' problem of European unemployment, by analyzing the institutional and macroeconomic determinants of employment for 18 OECD countries over the 1980-2004 period. The aim was to account for the complexity of the relationship between institutions and labour market performances.

The first specificity of the analysis performed relies on the dimension considered to account for labour market performance. The latter is generally evaluated on the basis of unemployment rate or to a lesser extent on the basis of employment rate. Three alternative measures were considered: the joblessness rate and its two components, i.e. inactivity and unemployment rates. The choice of a broader range of indicators was based on the following idea: statistical definitions produce a sharp divide between the unemployed and the economically inactive; in reality one should consider all those without work as being on a spectrum. At one end, one finds people defined as unemployed (i.e. those currently engaged in active job search) and, at the other end, one would have those who do not intend ever to look for a job.

The analysis also took into account a broad range of institutional determinants and employment performances indicators. The impact of institutional arrangements and macroeconomic conditions on the employment performance of workers, disaggregated according to sex and age categories, were investigated. This allowed highlighting the heterogeneity of situations within each type of non employed population. On the other hand, the impact of regulation policies in labour and products market was analysed in more depth. The possible interdependency between these two policies was particularly under focus: whether they are linked by a substitutability or a complementarity effect.

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<sup>3</sup> It should be noted that the OECD [2006] proposes a revised "Jobs Strategy" putting forward the Danish flexi-security model as an alternative to complete markets deregulation.

Our conclusion is that the empirical basis for orthodox strategies (fighting unemployment and joblessness in Europe relying on the expectation that more deregulated product and labour markets will bring about a superior employment performance) is not as solid as one would think. Some of the institutions characteristics of the European socio-economic models of Europe are not associated with inferior labour market performance.

The dominant policy prescription is to exploit a supposed complementarity between product market and labour market deregulation. Our results show that if one may expect an employment-boosting effect of product market deregulation, the same cannot be said of a decrease in the level of employment protection. On the opposite, it appears that *a far more effective pro-employment policy would be to implement a joint policy of product market deregulation with an increase in the level of employment protection*. A possible explanation for this could be made along the lines of Amable and Gatti (2006b). In a situation where labour market imperfections lead to the implementation of an effort-incentive wage, there exists a trade-off between job security and real wage. If an increased level of competition on product markets lead to more 'creative destruction', this will increase the employee's insecurity, and lead to an increase in the wage costs in order to provide workers the necessary incentives. This could in turn be detrimental to employment.

To offset this effect, one needs to augment the security of the employed so as to trade off security for lower wages. Therefore, *the combination of product market deregulation and employment protection should be able to bring the best of both worlds: wage moderation in exchange for job security and an increased labour demand because of the activity-boosting effect of more competitive markets*.

This policy combination differs somewhat from the flexicurity solution that is so popular in Europe nowadays. If status and income security can be credibly provided by the social security system and if they provide sufficient incentives for effort/involvement of the workers, then can social security be a substitute for employment protection. If these preconditions are not satisfied, the flexicurity strategy cannot be as efficient as the combination of competitive product markets and stable jobs.

## 2.2 Firms' approaches to changing employment relationships

In-depth meso and micro- case studies have been realised within ESEM project [ESEM D5] on different countries representative from the different European socioeconomic development models: Germany, Italy, Sweden, Poland and UK. Several firms have been surveyed from industries selected which are among the most knowledge intensive: auto, aerospace and ICT (telecom equipment, video game).

Three institutional areas of particular relevance from the perspective of work and employment models have been identified:

- Collective bargaining system and other institutions of the collective regulation of work and employment conditions.
- Regulation of work and employment flexibility. In the debate over "varieties of capitalism," "coordinated market economies" and "liberal market economies" are contrasted by whether they primarily use internal flexibility (working time flexibility, functional flexibility through work organisation and multiskilling) or external flexibility (dismissals, temporary agency work, fixed-term contracts).
- Institutions governing skill and competence development and acquisition.

Within this framework, ESEMK developed comparative case studies between Germany, Sweden and Poland on three industries: automobile industry, telecom equipment and video game (Jürgens, Krzywdzinski, 2006, 2007; 2009; Jürgens, Krzywdzinski and Teipen, 2006)<sup>4</sup>. Considerable changes have taken place in all three countries under study, but no clear convergence trend is apparent. The work and employment models in the case of our company studies in Germany and Sweden largely have kept their distinctiveness and traditional pattern, whereas in Poland developments are still open and controversial. The three countries under study differ in the extent of the variance permitted in work and employment models at the company and industry levels. Least variance was found in Sweden. It is interesting to note that very different sectors like the automotive and video games industries were able to develop relatively successfully within the same institutional framework. In Germany, the example of the video games industry shows that the institutional framework is far less comprehensive than often assumed. German industries dominated by SMEs and startups are characterised by weakly regulated labour markets and work and employment models where the “textbook form” of codetermination and employment security do not take effect. Poland, finally, shows the greatest diversity in company work models, owing to the weakness of the collective bargaining system, the deficient implementation of governmental standard setting, and the dominant role of foreign direct investment, which leads to the “import” of very different work and employment models. Contrary to the expectation that a high variance of work and employment models represents a weakness and that homogeneous “pure types” perform better because they exploit the “comparative advantages” of a given institutional setting to the maximum, Poland represents a case of relatively successful economic development (Krzywdzinski, 2007).

### **2.3. Financialisation as a driving force towards the neo-liberal (market-based) socio-economic model?**

#### *2.3.1. The analytical framework: discussing the attractiveness of the financial market economy's model*

In the literature on variety of capitalism, financial system is a crucial element to identify the institutional architecture of a socio-economic model of development. Michel Albert (1991) opposed the Anglo-Saxon model where financial markets play a crucial role to allocate financial resources from households to companies to the Rhenish model characterized by stable relationships between bank and industry. Such an opposition has been developed in different ways: direct finance vs. intermediary finance, financial market economy vs. financial core economy (Dupuy, Morin, 1993). It is a key factor in the opposition between liberal market economies and coordinated market economies in Hall and Soskice (2001).

Even in typologies which try to avoid a binary view, such as in systems of social of innovation and production (SSIPs), characterization of financial systems remains strongly based on such a dual opposition between a financial system with a strong role of market-based mechanisms and sophistication of financial services on one side (Anglo-Saxon or Neo-liberal or Market-based model), and a financial system based on a stable involvement of banks in industry, without any needs for sophisticated and innovative financial activities (Amable, 2003; [ESEMK D1]).

Our analysis on the impact of financialisation on the dynamics of European socio-economic models kept this analytical framework of a dual dynamics of finance: Anglo-Saxon model vs.

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<sup>4</sup> Another specific analysis have been realised on the High Performance Workplace comparing auto and aeronautics industry in UK, Italy and France (Stewart et alii in [ESEMK D5]).

[Continental] European model. On the worldwide scale, this opposition would probably be fully justified comparing countries like the US as the main example of a market-based dynamic of financial system on one side, and Japan on the other side (see the role of the main bank in Masahiko Aoki's analysis of the Japanese firm; Aoki, 2001). The leading role of the US and Wall Street in the global finance justifies that within ESEMKG project, comparative analysis have been developed with the US. Nevertheless, such an opposition has a clear illustration in EU comparing UK, and the prominent role of London City in European financial activities, and the two main countries representative of the European continental model, France and Germany.

In Continental Europe, financial markets had until recently a limited role in the economy. If banks played a strong role in financing economic activities, it was on the basis of stable relationships, with long-term involvement in the ownerships of industrial firms, often associated with public or family dominant shareholders. German banks were the main example of such a strong link, and in France, even the privatization has been initially associated to shareholders agreements ("noyaux durs" policy). Such relationships are clearly undermined by deregulation at the core of European policies, which contest such agreements as an obstacle to the necessary mobility of capital and the integration of the European (financial) markets.

More broadly financialisation and globalization processes in the 90s would have changed these configurations, with the growing role of US financial institutions, and the support of the City in Europe. Such changes led to the diffusion of the market-based mechanisms within Europe, which could undermine the stability of the European socio-economic model as one change in institutional area could lead to the destabilization of the whole system, breaking previous institutional complementarities. The main fear of such changes for many observers relies on the "parasitism" hypothesis. It is a long tradition not only among scholars, radical movements but also by managers, to worry about the so-called short-termism of finance, especially of impatient shareholders claiming for a high and rapid return of their investment. Growing role of financial institutions and diffusion of shareholder value would undermine the long-term investments in education and innovation necessary for the knowledge-based economy. Such hypotheses have been discussed within ESEMKG workpackage 3 [ESEMKG D4 and D7].

### *3.2. Main conclusions*

The analysis of the rapid changing landscape of financial system within the context of financialisation has been focused on three main issues:

- how financial innovation led the emergence of new actors of the 00s: private equity (Froud, Williams, 2007) and hedge funds (Dupuy, 2006; Dupuy, Lavigne, 2007);
- the reinvention of the core financial institution in Europe, i.e. banks which are no longer 'intermediaries', but rather actors operating a variety of business models (Erturk and Solari, 2007; Erturk, Froud, Solari and Williams, 2006). Continental banks (French or German) are among the most aggressive among the institutional investors (Dupuy, 2006), which explains the impacts of the US financial crisis in Europe;
- identifying the true role of the stock market which is not to finance industry, not to discipline manager, but a market for control and growth. The historical analysis of US and France stock markets led to the conclusion that they have been relatively unimportant as a source of new finance, and that they have not disciplined the manager as suggested by the agency theory. There are more used for mergers and acquisitions, for refinancing existing obligations and for building up cash for later use (O'Sullivan, 2004a, 2005, 2006; Lazonick, 2006, 2008; Johal & Leaver, 2007)

Changes in European financial systems led to the resurgence of criticism against the rentier (who at the end survive from promised euthanasia by Keynes) and parasitism of shareholders, and more broadly of finance damages extracting short term value from industry. We've discuss that point analysing firstly social groups that benefit largely from these changes (Glimstedt, Lazonick and Xie, 2006), what could impact in political alliances and on socio-political compromise on which rely European socio-economic models: *financialisation led to new political alliances between managers and new elites* (Erturk, Froud, Johal, Leaver and Williams, (2006; Erturk et al 2007).

Then our study on the impact of financialisation in high tech industries allow to discuss the supposed their negative effects on innovative activities which could be undermined by finance short-termism (Lazonick, 2005, 2007), underlying the limits of the "parasitism" hypothesis (Moura, 2007; Montalban 2007, Leaver and Montalban 2008). Our case studies led to the conclusion that *innovative activities are not undermined by finance short-termism*.

Finally, considering that financialisation is definitively a driving force in globalisation of economies, ESEMK discussed its impact on the European integration. Does it consolidate or undermine the emergence of a specific European socio-economic model? Both historical analysis of different trajectories - UK, USA, France and Germany (Froud, Johal, Leaver and Williams 2006, Johal and Leaver 2007, Johal 2007) - and worldwide comparative analysis of the financialisation process (Dupuy, Pons, 2005; Dupuy, Lavigne, 2007; Dupuy, Lavigne and Nicet-Chenaf 2007) led to findings which give some elements of response to such large questions: if differences remain between European socio-economic models, market-based mechanisms diffusion within financial system is disintegrating previous architectures without emergence of new institutional coherences.

### **3. NO EUROPEAN MODEL IS EMERGING**

At the root of the Lisbon Agenda is the diagnosis that the European model cannot face the challenges of the knowledge-based economy if it is not 'renewed' (Amable, 2006a, 2007, [ESEMK D7, and ESEMK RP3 *Publishable executive summary*]). This leads to two questions: what European model are we talking about and what does 'renewed' mean?

All models of capitalism, and particularly the continental European model, are inhabited by conflicts over the dynamics of institutions. These conflicts stem mostly, but not exclusively, from the differentiation of social positions. They find different expressions in society according to the structure of political supply, political institutions and the model of capitalism. They result in differentiated strategies concerning the model of capitalism, strategies which oppose to each other in the political arena. A distinguishing trait of the countries related to the continental European model of capitalism is that this arena is not confined to the national borders. Because the relevant countries belong to the European Union, the conflict between models escapes in part from the limits of the national political game and takes place at the EU level, with rules and actors that differ from those that structure the political conflict at the national level.

A large part of the debate over the evolution of the European economic model is centred on the Lisbon process, launched in 2000, with the aim of making Europe the most competitive knowledge-based economy by 2010. This process implied from the start a certain number of structural transformations. (see Rodrigues, 2003 and 2004). In terms of models of capitalism, the inspiration of the Lisbon process was more social-democratic than neo-liberal. But its dynamics led to opportunities for supporters of the neo-liberal option for Europe to jump into the bandwagon and actually try to take over the whole process to their own end. The resulting situation may be roughly summarised in the following way. There is not one but two views concerning the Lisbon process. The original process insisted on the stringent need for

Europe to increase its scientific and technological effort in order not to lose touch with the technological frontier. Some consequences concerning organisational and institutional reforms were considered. But a different vision of Lisbon insists on the necessity of neo-liberal reforms to reach the objectives of Lisbon in terms of employment, innovation, productivity and standard of living. These two views illustrate the conflict between models within Europe: must the European model of capitalism take a neo-liberal direction or should it take a more social-democratic path?

In this perspective, the Lisbon process as such does not define a coherent model of capitalism. The Lisbon Agenda has both accompanied and reinforced a pre-existing process of institutional change that is likely to lead European countries towards a type of capitalism that will be new to most of them. This process will take time and is very likely to meet substantial social and political opposition on the way. Although the aim of the Lisbon Agenda is to 'renew' the European model of capitalism, it looks as if the renewal process will alter so many important institutional features that it will lead to an altogether different model.

The structural reforms implemented for the last two decades and those that are planned for the future go in the direction of weakening or dismantling some of the key elements of the European model(s) of capitalism. This does not mean that the responsibility for the problems of the European model of capitalism should entirely, or even for the most part, go to the Lisbon process itself, at least as it was intended from the start. The Continental, Mediterranean or even Social-Democratic models of capitalism have had stability problems of their own which have led to more or less dramatic evolutions of their main institutional forms. The Lisbon Agenda is only one aspect of the more general issue of institutional change in modern capitalist societies. It nevertheless gives a unified framework and contributes to justifying some of the institutional reforms that are most effective in the demise of the European model(s) of capitalism, even if the original intentions of the Lisbon process were different.

The Lisbon Agenda can be defined as a compromise between the Neo-liberal and the Social-Democratic models: (product, service and labour) market flexibility coupled with social security. When one looks at its alleged qualities, this hybrid model seems hard to resist: it should marry the economic efficiency of the market-based neo-liberal model with the respect for social cohesion characteristic of the social-democratic model. A combination of both economic efficiency and social justice at the same time: who could be against that?

However, the theory of institutional complementarity leads one to be cautious about the possibilities of taking the supposedly 'best' institutional forms of different models and putting them together in a new 'hybrid' configuration.<sup>5</sup> The internal consistency of a model of capitalism must take into account the complementarities between institutions and the stability of the socio-political equilibriums upon which these institutions are based. In this respect, the market/social-democratic hybrid favoured by many a proponent of structural reforms in Europe is not necessarily very stable on both counts: institutional complementarities and socio-political foundations.

A notion central to the whole Lisbon Agenda which epitomises the alliance between market-based economic efficiency and concerns about social cohesion is the '*flexicurity*', i.e. the association of (labour market but also other markets) flexibility coupled with social security. The suspicion is that the *flexicurity* 'solution' is a -social, political, institutional- equilibrium only when some precise institutional conditions are fulfilled: at least a sizeable union power and the absence of too intense a tax competition. These conditions are not necessarily met in Continental European countries now. Moreover and most significantly, the institutional change that is currently taking place (not to mention what is advocated by the Lisbon

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<sup>5</sup> In a way reminiscent of an old playground joke: who possesses the charm of Frank Sinatra and the intelligence of Einstein? Frankenstein!

Agenda) in these countries does not go in the direction of reinforcing the necessary conditions. Therefore flexicurity may turn out to be an unstable institutional equilibrium, with markets' flexibility and no security at the end of the line.

A very brief sketch of the consequences of the structural reforms advocated by many reports by the OECD or the Commission has been proposed. It appears definitively that structural 'reforms' undermine the institutional complementarities of the European model(s) –cf. above. In this context, the Lisbon Agenda offers no 'renewal' of the so-called "European model". One can isolate a set of characteristics that are common (to different degrees) to the Continental and social-democratic models of capitalism: security regarding social status, limited income inequalities... These outcomes are guaranteed by a set of institutional forms: employment protection, welfare state, recognised role of trade unions, public intervention... All these institutions have experienced more or less drastic change in the past decades, generally in a direction away from the European model(s). The guidelines present in Lisbon 2 do not seem to contribute to promoting the emergence of a European model of capitalism that would keep the most distinctive elements of the Continental and social-democratic models in spite of the reaffirmed objective of social cohesion. Within these guidelines, there is no support for solidaristic wage-setting, and increased market flexibility is the unique way out of unemployment.

Rather than a technocratic view of the necessary reforms elaborated by experts, ESEMK approach considers that the analysis of institutional changes within European socio-economic models would have to focus on the dynamic of change in sociopolitical compromises which supports the institutional arrangement, and the interplay of these changes in relationships (complementarity/hierarchy) with associated institutional areas at the macro and meso/micro levels.

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